Bonanza Air Lines Financial Report
Six Months Ended June 30, 1967

BONANZA AIR LINES, INC.

BALANCE SHEET
JUNE 30, 1967

Assets

Current assets:	
Cash	$ 695,745
Receivables-net	1,234,685
Other current assets	1,143,998
Total current assets	3,074,428
Properties and equipment, at cost:	
Flight equipment	23,279,600
Other property and equipment	1,960,513
	25,240,113
Less allowance for depreciation and amortization	7,764,329
Net properties and equipment	17,475,784
Deposits on equipment purchase contracts	1,736,008
Unamortized development and preoperating costs	856,786
Deferred costs and other assets	139,014
	$23,282,020

Liabilities

Current liabilities:	
Current maturities of notes payable	$ 1,545,181
Accounts payable and accrued liabilities	1,840,864
Unused transportation	106,968
Total current liabilities	3,493,013
Notes payable to banks	7,247,793
Convertible subordinated debentures	1,396,900
Deferred federal income taxes	587,000
Stockholders' equity:	
Common stock $1.00 par value. Authorized 3,000,000 shares; issued 1,304,464	1,304,464
Additional paid-in capital	4,424,793
Retained earnings	4,828,057
Total stockholders' equity	10,557,314
	$23,282,020

FINANCIAL AND OPERATING STATISTICS

	Six Months Ended June 30,		
	1967	1966	1965
Aircraft miles flown in scheduled service	4,323,285	3,951,448	3,780,930
Revenue passengers carried	478,755	386,985	330,325
Available seat miles flown (000)	222,607	180,671	151,237
Revenue passenger miles flown (000)	119,946	98,411	84,464
Passenger load factor	53.9%	54.5%	55.8%
Available ton-miles flown (000)	24,667	19,165	15,124
Revenue ton-miles flown (000)	11,883	9,776	8,389
Overall load factor	48.2%	51.0%	55.5%
Commercial revenues: Total	$8,243,340	$6,682,554	$5,576,104
Operating expenses: Total	9,402,839	7,607,211	6,559,957
Per revenue ton-mile of traffic	0.79	0.78	0.78
Public service revenue required to provide operating break-even need: Total	1,159,499	924,657	983,853
Per available ton-mile flown	0.05	0.05	0.07
Per revenue ton-mile of traffic	0.10	0.09	0.12
Break-even need as percent of commercial revenue	14.1%	13.8%	17.6%
Commercial revenue as percent of operating expense	87.7%	87.8%	85.0%

BONANZA AIR LINES, INC.

STATEMENT OF EARNINGS

	Six Months Ended June 30,		
	1967	**1966**	**1965**
Operating revenues:			
Passenger and excess baggage	$7,814,877	6,408,528	5,354,638
Mail, express and freight	273,854	225,287	170,634
Charter and incidental	154,609	48,739	50,832
Public service (subsidy)	1,799,939	1,775,782	1,519,793
	10,043,279	8,458,336	7,095,897
Operating expenses:			
Flying operations	2,222,927	1,825,619	1,576,151
Maintenance	1,821,464	1,509,741	1,249,355
Passenger service	445,968	377,484	314,914
Aircraft and traffic servicing	1,901,030	1,592,588	1,366,947
Promotion and sales	1,176,781	910,733	860,981
General and administrative	800,484	655,415	615,686
Depreciation and amortization	1,034,185	735,631	575,923
	9,402,839	7,607,211	6,559,957
Operating income	640,440	851,125	535,940
Non-operating revenue (expense):			
Interest	(248,873)	(200,620)	(96,649)
Other, net	13,440	7,535	(4,008)
	(235,433)	(193,085)	(100,657)
Earnings before taxes on income	405,007	658,040	435,283
Provision for taxes on income	111,000	233,000	118,000
Net earnings from operations	294,007	425,040	317,283
Gain on sale of aircraft, less applicable taxes of $233,000	—	390,462	—
Net earnings	$ 294,007	815,502	317,283
Net earnings from operations per share	$ 0.23	0.36	0.28
Gain on sale of aircraft — net per share	—	0.34	—
Net earnings per share	$ 0.23	0.70	0.28
Average outstanding shares	1,293,280	1,172,101	1,127,681

Report to Shareholders & Employees

ON AUGUST 15 BONANZA AIR LINES, AS AUTHORIZED BY THE BOARD OF DIRECTORS, ENTERED INTO AN AGREEMENT IN PRINCIPLE WITH PACIFIC AIR LINES AND WEST COAST AIRLINES FOR CONSOLIDATION OF THE THREE COMPANIES. THE AGREEMENT PROVIDES THAT STOCK OF THE MERGED COMPANY WILL BE ISSUED ON A SHARE FOR SHARE BASIS TO EACH STOCKHOLDER OF THE PRESENT COMPANIES. A DEFINITIVE AGREEMENT BETWEEN THE COMPANIES WILL BE DRAWN AND WILL BE SUBJECT TO APPROVAL OF THE BOARD OF DIRECTORS AND THE STOCKHOLDERS OF EACH OF THE COMPANIES AND OF THE CIVIL AERONAUTICS BOARD.

Net earnings from operations for the first six months of 1967 were $294,007 on revenues of $10,043,279. For the first six months of 1966, net earnings from operations of $425,040 on revenues of $8,458,336 were reported. Because of adjustments made at year-end in 1966, it is desirable to restate first half earnings of that year. The adjustments applied to revenue, expense and tax provision and are described in tabular form on the facing panel. The 1966 first half earnings, as restated, provide a logical basis for comparison with 1967 first half earnings. However, the published $425,040 earnings figure for 1966's first half will continue to be used in all financial reports.

Net earnings in the second quarter ended June 30 (adjusted for first quarter 1967 temporary subsidy payments) were $174,132, or 13 cents per share, up from a restated $151,679, or 13 cents per share, on fewer shares outstanding a year earlier. Total revenue in the June quarter climbed to $5,051,506 from a restated $4,515,052 in the like 1966 period.

Passengers boarded in the first six months of 1967 totaled 478,755, a gain of 24% over the 386,985 boarded in the same period of 1966. While total commercial revenue was up 23% to $8,243,340, federal subsidy remained approximately the same as in 1966. Total operating revenue increased 19% to $10,043,279 while operating expense increased 24% to $9,402,839 or $1,795,628 above the 1966 level of $7,607,211.

Cost pressures to which the Company has been subjected are not unique to this airline alone, nor to business generally. There is no exclusive area of expense which can be identified as the major cause of cost increase since wages, materials and services have all escalated. Airline costs are highly variable and always rise with increased passenger and cargo traffic. The escalation of wages and prices plus additional costs due to a growing volume of traffic cause a narrowing profit margin. At some point airline rates must necessarily be raised to alleviate the cost/price squeeze. However, airline rates in short haul markets are sensitive to competition from surface modes of transportation.

To permit a better understanding of the nature of increases, an analysis of operating expenses is enclosed with this report. Budgetary controls are being followed in all departments of the Company, which promise to slow the onrush of inflationary pressures.

Looking ahead, management believes it has now met the biggest step of the move upward to jet fleet costs and, of course, present headquarters facilities will not need near-term expansion.

This year's second half promises to show sharp improvement over the second half of 1966. We are, in fact, hopeful that second half earnings will be sufficiently large for the Company in 1967 to equal or exceed 1966 in profits.

Announcement by the Department of State regarding bilateral discussions between the governments of the United States and Mexico is expected momentarily. The Company's proposals for routes between Phoenix and Tucson and Guaymas, La Paz, Mazatlan and Puerto Vallarta appear to have excellent opportunity for inter-government agreement. Upon announcement of an agreement involving a grant by the Mexican government for a United States carrier to serve such points in Mexico the Company's pending application with the Civil Aeronautics Board will be set down for hearing, together with possible competitive applications of other carriers. The Company believes it will receive authority to serve points in Mexico and hopes to inaugurate such service before the end of 1967.

The Tucson Service Case, wherein the Company is seeking nonstop authority between Tucson and Los Angeles, San Diego, Las Vegas, Reno and Salt Lake City as well as to other points now served, has completed the hearing stage and now awaits the initial decision of the hearing examiner. The Bureau of Operating Rights of the Civil Aeronautics Board has recommended the award of all of the Company's application in the proceeding and the denial of all other applicants. The final conclusion of this proceeding is also expected prior to the end of 1967 and the Company believes that it will be successful in gaining the full authority sought.

The Salt Lake City-Las Vegas-Southern California Service Case hearing was concluded on July 28. In this proceeding the Company is seeking nonstop authority between Salt Lake City on the one hand and Los Angeles and Las Vegas, as well as nonstop authority between Las Vegas and San Diego, Las Vegas-Palm Springs-San Diego, Salt Lake City-Cedar City-Las Vegas and turnaround authority between Los Angeles and Palm Springs. Briefs of the parties to the hearing examiner are due to be filed in early September.

The route authorities sought in these proceedings are of a long haul nature and have traffic density ideally suited for DC-9 operation. The profit potential of these routes is well above the average of the present system.

The fourth DC-9 aircraft which was leased to another air carrier for eleven months was returned on June 30. Conversion of the cockpit and cabin interior was completed at the end of July and the training of additional crews is in progress. This aircraft will permit the introduction of DC-9 service between Santa Ana and the surrounding Orange County communities and Phoenix and Las Vegas. Additional service will also be added between Los Angeles and Las Vegas with the aircraft which will enter scheduled service on September 1.

Sincerely,
Edmund Converse,

Edmund Converse

August 31, 1967

President

A RESTATEMENT OF 1966 FIRST HALF EARNINGS FOR COMPARATIVE PURPOSES

	First Six Months	
	1967 (000)	**1966** (000)
Total operating revenue	$10043	8458
Less: Portion of adjustment made December 1966 to passenger revenue*		99
Total operating revenue as adjusted	10043	8359
Total operating expense	9403	7607
Add: Portion of adjustment made December 1966 to inventory of parts*		50
Total operating expense as adjusted	9403	7657
Operating income	640	702
Non-operating revenue (expense)	(235)	(193)
Earnings before taxes on income	405	509
Provision for taxes on income	111	233
Less: Tax provision adjustment related to passenger revenue and inventory adjustments*		53
Provision for taxes on income as adjusted	111	180
Net earnings from operations	$ 294	329

*Both the passenger revenue and the inventory adjustments were traceable to the period in which the Company moved its headquarters to Phoenix.

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Six Months Ended June 30, 1967